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SOUTHEAST ASIA

1. French may break off talks with Cambodia:

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Commissioner General Dejean is pessimistic regarding the outcome of negotiations with the Cambodians as the latter continue to insist that their five battalions now serving in the French regular army be incorporated into the Cambodian national army. Dejean says that General Navarre needs these battalions and that it might be necessary for the French to break off negotiations to retain control of the strategically important area west of the Mekong River.

Comment: The Cambodians are very sensitive to the French charge that they are incapable of defending themselves, and are likely to interpret French refusal to turn over Cambodian troops as a deliberate attempt to perpetuate Cambodian weaknesses. The current mobilization program in Cambodia is being undertaken with intense seriousness and strong popular support.

A probable factor in the French attitude is the precedent which return of the five battalions would set in Vietnam, where some 50,000 Vietnamese troops are still in the French regular army.

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NEAR EAST - AFRICA

3. Change in Iraqi premiership expected soon:

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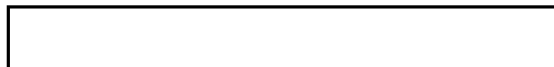
Several high Iraqi officials predict a change in the Baghdad government within the next two weeks, according to the American embassy. Factors producing such a change would be Prime Minister Midfai's long desire to resign, quarrels in the present cabinet, and the failure of the government to initiate urgently needed reforms. Among the three leading candidates for the premiership is elder statesman Nuri Said, for many years premier and now defense minister.

Comment: A cabinet change at this time would probably strengthen the position of the pro-Western rightist group led by Nuri, who has already indicated his readiness to deal harshly with nationalist as well as leftist activities.

Nuri Said has played a prominent role in the Midfai cabinet since it was formed last January following an election which installed a pro-Nuri parliament. Rumors last spring that Midfai would yield the premiership to Nuri or a Nuri-approved candidate increased after King Faisal II acceded to the throne on 2 May.

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4. Egypt reports some progress in Suez base talks:

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Egyptian vice premier Nasr considers that an "understanding" on the question of the future availability to the West of the Suez base was reached during the 27 August meeting between British and Egyptian representatives, according to the American embassy in Cairo.

Nasr stated that no progress, however, was made on the matter of duration of an Anglo-Egyptian agreement or the time required for the withdrawal of British troops from the base. He indicated that Egypt would accept a five-year agreement but could not go to the public with a proposal for a longer period.

On 28 August the Egyptian ambassador in Washington told the Department of State that Nasr believes the next Anglo-Egyptian meeting scheduled for 3 September will decide the success or failure of the talks.

Comment: Despite reported progress on the question of future availability of the base, there is no indication that Britain will readily modify its demand for a ten-year agreement.

WESTERN EUROPE

5. Italian premier modifies initial strong stand on Trieste issue crisis:

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Although Italian premier Pella on 29 August had threatened to resign should Yugoslavia annex Zone B of Trieste and Italian troops be prevented by the American and British

occupation forces from taking over Zone A, he appeared much calmer the following day. He had also stated earlier that it would be "most difficult" for Italy to remain in NATO following a Yugoslav annexation of Zone B, but on 30 August he stressed to an American embassy official his full intention to carry on a strong pro-NATO policy.

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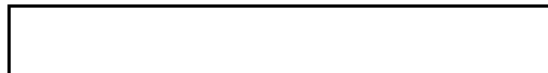
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Under this proposed solution, on which Italy and Yugoslavia have in the past agreed in principle but differed on details, the territory would be divided roughly along present zonal boundaries, with certain adjustments along ethnic lines.

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